Annual assessment of implementation of stability and convergence programmes

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The Council examined the updated Stability Programme f the Netherlands for the period 2001-2007. In 2002 real GDP growth decelerated sharply to 0,2 %, from 1,3 % in 2001, well below the forecast included in the 2001 stability programme. Government finances deteriorated markedly in 2002, mainly in response to the economic slowdown. In 2002 the general government balance showed a deficit of 1,2 % of GDP, compared to a slight surplus of 0,1 % of GDP in 2001. HICP inflation decelerated to 3,9 % on average in 2002, from 5,1 % in 2001. The Council states that since the presentation of the initial 2002 updated stability programme in December 2002, the macroeconomic projections have been significantly revised downwards, with a negative impact on budgetary conditions. The Council notes that while the gradual but relatively muted economic recovery projected in the programme appears plausible, risks are clearly skewed to the downside and that the expected recovery is contingent on a pick-up in global demand and the successful restoration of the competitiveness of the Dutch market sector. The latter requires appropriate wage developments and an increase in the rate of productivity growth. The Council notes that in the central projection of the update the government balance is expected to deteriorate initially from a deficit equal to 1,2 % of GDP in 2002 to a 1,7 % deficit in 2004. A subsequent improvement is expected subsequently to reach a deficit of 0,5 % of GDP in 2007. The government debt ratio is expected to remain below the level of 60 % of GDP and to remain broadly stable, at around 52,5 % of GDP in the period 2002 to 2007. The Council welcomes the substantial consolidation effort entailed in the 2003 budget and in the coalition agreement of the new government for the period 2004 to 2007, which in cumulative terms amounts to 1,2 % of GDP in 2003, 1,7 % of GDP in 2004 and up to close to 3 % of GDP in 2007. Against the background of a steeper economic downturn than previously expected, budgetary policies are expected to lead to an improvement in the cyclically adjusted general government balance by 1 % of GDP between 2002 and 2005. A position close to balance in cyclically adjusted terms would be reached in 2005 and maintained in the two subsequent years. The Council considers that with the full implementation of the consolidation measures announced by the new government and given normal macroeconomic fluctuations, a safety margin is provided not to breach the 3 % of GDP deficit threshold. As far as the projected changes in the cyclically adjusted general government balance are concerned, the Council regrets that in 2003 and 2004 the path of adjustment falls short of the requirement to reduce the cyclically adjusted deficit by at least half a percentage point in each year, albeit not by a wide margin. The Council recommends the Dutch authorities to implement as planned the announced measures, which amount to 0,5 % of GDP in 2004. Given the downside risks attached to the growth projections, the Council notes that additional measures might be needed to ensure that a budgetary position close to balance or in surplus would be maintained in the medium term. Lastly, the Council considers that on the basis of current policies, the Netherlands appear to be in a relatively goodposition to meet the budgetary costs associated with ageing. The debt to GDP ratio will continue to decline in coming years. However, a slight reverse trend of the debt to GDP ratio in the long run cannot be excluded. To avoid the risk of imbalances in the long run, it would be necessary to fully implement the "Global Agreement", in particular as regards the reforms in the social insurance sector that aim at increasing participation rates and the effective retirement age. The Council considers that achieving in the longer-term a surplus budgetary position would contribute to ensuring the sustainability of government finances in the Netherlands.